

## STRUCTURE OF THE SHADOW ECONOMY

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### *Abstract*

The shadow economy is an economic activity outside of government control. The problem of the shadow economy is most relevant in our time, since the scale of its spread is growing throughout the world and soon it may cover the entire sector of the economies of the world. The existence of the shadow economy creates a negative impact on society.

**Keywords:** Criminal segment, fictitious segment, informal segment

## INTRODUCTION



The structure of the shadow economy is so multifaceted that its consideration can help us understand the subtle features of shadow economic activity.

The structure of the shadow economy is divided into 3 segments [1]:

- a. Crime segment
- б. Fictitious segment
- в. Informal segment

The criminal segment is an economic activity prohibited by law: theft, official and economic crimes, etc.

The fictitious segment is an economic activity associated with the abuse of official position to achieve one's goals; there is also illegal possession of financial assets and their transfer. The informal segment is an informal system of relations between entities associated with various types of fraud.

In my opinion, an important thing in the structure of the shadow segment is its division in relation to the scale of the subjects of implementation into: the "second" shadow economy, the "gray" and "black" shadow economy [5].

- 1) The "second" shadow economy is an activity prohibited by law, leading to the hidden distribution of the created national product. It interacts closely with the "white" (legal) economy. Field of activity (corruption).
- 2) The "gray" shadow economy is the activity of producing products permitted by law, but not registered in certain registers. This economy operates independently from the "white" economy. Scope of activity (unofficial employment, unregistered repair work, etc.).
- 3) The "black" shadow economy includes the production and sale of illegal goods and services. Sphere (drugs, smuggling, etc.).

## RESULTS AND DISCUSSION

Based on the published typology, we can say that the greatest harm to the economies of countries is caused by the "second" and "black" shadow economies, since the system of centralized

economic management is destroyed, an antisocial redistribution of society's income occurs in favor of small privileged groups, which leads to a decrease in the well-being of society. Also, in the structure of conducting the shadow segment, there are forms of conducting shadow activities. Highlight:

1. Penumbra activity. According to this activity, all taxes reduce profits, therefore, they should be feared, i.e. individuals and legal entities hide their income in order to avoid paying taxes.
2. Rational shadow activity - this type of economy is forced in nature, since "the cost of running a legal economy is much higher than the price in the shadow economy"
3. Irrational shadow activity is the result of inappropriate behavior, the subject of which is prone to all kinds of risks. This position is defended by the theory of the economics of crime, based on the position of detection of economic offenses and the inevitability of all kinds of sanctions. In accordance with this theory, the activity of the shadow economy in the state is inevitable.

In each of the mentioned configurations of shadow activity, a meaningful choice is taken into account, reasoned or unproven, reliable or fickle, independent or forced. In all three positions, legal, transparent activities are possible, although burdensome. Today, in times of crisis, entrepreneurs, in order to avoid ruin, use one of the three forms of shadow economic activity presented above.

The variety of forms of conducting shadow activities allows a person to choose which method he can use to conduct one or another illegal economic activity. This is where the insecurity of the "white" economies of countries lies. Entrepreneurs begin to use the shadow economy in order to enrich their budget, thereby causing harm to the state budget.

In order to avoid the growth of the use of these forms of shadow economic management, the state of the countries needs to make changes in the economic policy of a particular country (for example, reduce property taxes, provide benefits to entrepreneurs), try to avoid crisis "unrest," and also establish a structure.

An important aspect of the structure of the shadow sector is its classification into segments in which the objective factor dominates.

1. Shadow activity as a model of collective survival.
2. Shadow activity as a model of individual survival through second hidden employment (subsistence farming, provision of services).
3. Traditional shadow activities as a stereotype of national behavior and national mentality (informal transactions)
4. "Ideological" shadow activity.

In order to fully understand the structure of the shadow sector, we need to consider the functions of shadow activities. Various scientists and thinkers of economic activity have identified different classifications of the functions of shadow activity. I would like to consider the systematization presented by the Swiss economist Dieter Kassel. I believe it best reflects the scope of the illegal economy. He identifies 3 main functions [3]:

1. "Allocation function" is the mitigation of jumps in the financial situation through the redistribution of resources between the legal and illegal economy.
2. "Stabilizing function" - any economic system tries to avoid all kinds of external and internal shocks. The shadow economy can absorb shocks from the legal economy, thereby stabilizing the economy as a whole.
3. "Distributive function" - the shadow economy can help preserve the socio-political system of society, as it offers everyone dissatisfied with their economic situation alternative possibilities for solving them without any shocks.

Thus, the structure of the shadow economy reveals to us all the intricacies of running the "illegal" sector of the economy. Using the structure, we found out that the greatest harm

to the economic structure of countries is caused by the “second” and “black” illegal activities of the economy, since these 2 components are engaged in the production and sale of prohibited goods and services and, as a consequence of this, the hidden distribution of the national product, which negatively affects the activities of the legal sector of the economy.

## **CONCLUSION**

An analysis of the structure of the shadow economy, which is broken down into sectors related to crime, fiction, and informality, sheds light on the complex nature of illegal economic activity. Notably, the division of these activities into "second," "gray," and "black" shadow economies highlights their scope and significance. The "black" shadow economy, which deals with illicit goods and services, and the "second" shadow economy, which is deeply entwined with the legal economy through corruption, both represent serious challenges to national economies by undermining centralized economic administration and increasing wealth disparity. The various shadow activities that fall into the categories of penumbra, logical, and irrational highlight the difficult decisions people have to make when navigating the legal and shadow economies, especially in times of crisis. According to economist Dieter Kassel, the shadow economy serves a variety of purposes, including reducing financial volatility, promoting economic stability, and offering substitutes for traditional means of resolving social problems. Preserving the integrity of legal economies and limiting harm to the state budget need strategic adjustments in economic policies, crisis prevention measures, and structural reforms to counteract the negative consequences of these shadow activities.

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